

MASSACHUSETTS

Public Employee Retirement Administration Commission
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M E M O R A N D U M

TO: All Retirement Boards

FROM: James Waldman, Director of Finance

RE: 1998 Annual Statements

DATE: February 3, 1999

Enclosed are the Annual Statements forms for 1998. These forms must be completed, signed and returned to the Public Employee Retirement Administration Commission by May 1, 1999. Once again, a PERAC auditor will be assigned to work with you and provide any technical assistance that is needed. The auditor that is assigned to you will be contacting you within the next two weeks.

Changes to this year's statement include expiration dates for board member's term of office, new ledger accounts for pooled funds, and separation of realized gains/losses and unrealized gains/losses from investment income for pooled funds.

Last year an appendix was added to the Annual Statement which includes the Plan Description, Significant Accounting Policies and Actuarial information. The first 2 pages of the appendix state the plan description and significant accounting policies. Systems should read these pages carefully in order to make any changes to wording that does not apply to your system. The last page of the appendix will have actuarial information that is based on actuarial valuations of your system. Please include information from your last 3 valuations in the Schedule of Funding Progress. **Additionally, you must attach a copy of your most recently approved funding schedule.** If you need assistance in completing the actuarial information, please contact this office.

Prior to completing the annual statement, it is necessary that all accounting be kept on a current basis, and, therefore, we are asking that all boards submit their December cashbook and preclosing trial balances by February 21, 1999. If you are having difficulty adhering to this deadline, please contact Jim Waldman.

If you submit schedules 1 through 6 from a custodian and the schedules are not in the prescribed format, you must type the totals on PERAC's schedules with the page reference to the custodial statement. Please be sure that all schedules are totaled and that these amounts agree with the corresponding amounts on the Annual Statement.

MEMORANDUM - Page Two

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The 1998 changes to the Annual Statement are as follows:

Signature Page: State the date of expiration of the term of office for each of the board members

Page 2: All pooled funds must be categorized by the new pooled fund ledger numbers. This also applies to the listing for the prior years

Schedule 5: Investment Income, realized gains/losses, and unrealized gains/losses for pooled funds must be categorized separately in columns (C), (D), and (E) respectively.

Computer printed forms must be on paper no longer than 8 1/2 by 14 paper. If your paper is larger, you must print only in an area of 8 1/2 by 14 and cut off the excess prior to mailing to PERAC.

MEMORANDUM - Page Three

TO: All Retirement Boards
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The following steps must be taken in order for you to complete your annual statement:

1. The membership schedule must be completed to determine the Annuity Savings Fund interest required.
2. The same procedure must be followed to determine the Military Fund interest required.
3. The Annuity Reserve Fund interest must be calculated by multiplying the balance in the fund at the end of each month by .0025. You begin with the balance as of December 31st of last year and use the balances in the fund of each month through November 30th. The worksheet on page 7 should be used to calculate this interest.
4. Determine amount necessary to bring Expense Fund to zero
5. Complete the investment schedules. (Please remember that investments traded in 1998 but not settled until 1999 must be included in the 1998 Annual Statement).
 - a. Determine the accrued interest
 - b. Adjust equities to market value December 31st
 - c. Determine current year investment income
 - d. Post amortization of fixed income securities
6. Determine accounts receivable and accounts payable and make appropriate journal entry. All receivables and payables must be listed on Schedule A in the annual statement.
7. Using the before closing trial balance, you can enter the appropriate figures into the annual statement. The first page to be completed should be the investment income schedule - page 6. Next, pages 4 and 5 can be completed using the balances before closing with the following exception. The amounts for 1(d), 2(a), 4(b), 5(b), and 6(d) on the receipts page can be found at the bottom of page 6.
8. Page 3 can be completed next, by entering the beginning fund balances using the ending balances from last year. The next step is to take the totals of the receipts and disbursements for each fund from pages 4 and 5. The interfund transfers should be listed on the bottom half of page 3. Include both the interfund transfers made during the year and those made at the end of the year. (Do not treat interest not refunded as an interfund transfer, it is a receipt on page 4 (#6c.) You must lump together all items of the same nature, i.e. all transfers from the Annuity Savings Fund to the Annuity Reserve Fund on account of retirement, must be listed as one total. Finally, by adding the beginning balance to the receipts and interfund transfers (if negative amount, subtract) and subtracting the disbursements, you will have the balance for December 31st.
9. Next you will make the closing entries as indicated on pages 8, 9, and 10 of this memorandum. The fund balances must agree with the balances on page 3. If it does not, then there is a problem that must be corrected.

MEMORANDUM - Page Four

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Below you will find a listing of all ledger accounts. On this page are all the control accounts and on the next page you will find all the subsidiary accounts and the fund to which each subsidiary closes. Additionally, I have indicated whether the balance should be a debit or a credit balance along with the reference page number where this information can be located in the accounting manual. Please refer to chapters 5 and 7 when you close your books for the year.

<u>Assets</u>	<u>Balance:</u>	<u>Manual Reference:</u>
1040 Cash (Bank Name and Acct. No.)	Debit	2-1 2-2
1041 Cash (Bank Name and Acct. No.)	Debit	2-1 2-2
1042 Cash (Bank Name and Acct. No.)	Debit	2-1 2-2
1043 Cash (Bank Name and Acct. No.)	Debit	2-1 2-2
1100 Short Term Investments	Debit	4-2
1180 Fixed Income Securities	Debit	4-3 4-9
1170 Equities	Debit	4-4 4-17
1101 Pooled Short Term Funds	Debit	
1172 Pooled Domestic Equity Funds	Debit	
1173 Pooled International Equity Funds	Debit	
1174 Pooled Global Equity Funds	Debit	
1181 Pooled Domestic Fixed Income Funds	Debit	
1182 Pooled International Fixed Income Funds	Debit	
1183 Pooled Global Fixed Income Funds	Debit	
1193 Pooled Alternative Investments/Private Equity	Debit	
1194 Pooled Real Estate Funds	Debit	
1195 Pooled Domestic Balanced Funds	Debit	
1196 Pooled International Balanced Funds	Debit	
1198 PRIT Cash Fund	Debit	
1199 PRIT CORE Fund	Debit	
1398 Account Receivable	Debit	7-2
1550 Interest Due and Accrued	Debit	5-8
2020 Accounts Payable	Credit	7-1
<u>Funds</u>	<u>Balance:</u>	<u>Manual Reference:</u>
3293 Annuity Savings Fund	Credit	5-1 5-10
3294 Annuity Reserve Fund	Credit	5-1 5-10
3295 Special Fund for Military Service Credit	Credit	5-1 5-10
3296 Pension Fund	Credit	5-1 5-10
3297 Pension Reserve fund	Credit	5-1 5-10
3298 Expense Fund	Credit	5-1 5-10

MEMORANDUM - Page Five

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<u>Receipts</u>	<u>Balance:</u>	<u>Close</u>	<u>to:</u>	<u>Manual</u>	<u>Reference:</u>
4891 Members Deductions	Credit	3293	3-1	3-14	
4892 Transfers From Other Systems	Credit	3293	3-2		
4893 Member Make Up Payments and Redeposits	Credit	3293	3-3		
4898 3(8)(c) Reimbursements from Other Systems	Credit	3296	3-7		
4899 Received from Commonwealth for COLA and Survivor Benefits	Credit	3296	3-5		
4884 Realized Gain/Profit on Sale of Investments	Credit	4820	4-9		
4885 Realized Loss/Loss on Sale of Investments	Debit	4820	4-10		
4886 Unrealized Gain/Increase in Market Value of Equities	Credit	4820	4-28		
4887 Unrealized Loss/Decrease in Market Value of Equities	Debit	4820	4-29		
4894 Pension Fund Appropriation	Credit	3296	3-4	7-3	
4895 Pension Reserve Appropriation	Credit	3297	3-8		
4896 Expense Fund Appropriation	Credit	3298	3-6	7-3	
4897 Federal Grant Reimbursement	Credit	3297	3-18		
4890 Contributions Rec'd from municipality on a/c of military service	Credit	3295	3-9		
4820 Investment Inc. - Control Acct	Credit	3293, 3294, 3295, 3297, 3298	4-25	5-10	
4821 Investment Income Received	Credit	4820	4-25	5-10	
4822 Interest Not Refunded	Credit	3297	3-13	5-9	
4823 Paid Accrued Interest on Fixed Income Securities	Credit	4820	4-3	5-10	
4828 Increase in Amortization of Fixed Income Securities	Credit	4820	4-26	5-10	
4829 Decrease in Amortization of Fixed Income Securities	Debit	4820	4-27	5-10	

MEMORANDUM - Page Six

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Disbursements

Balance: Close to: Manual Reference:

5757	Refunds to Members	Debit	3293	3-12	3-11
5756	Transfers to Other Systems	Debit	3293	3-12	
5750	Annuities Paid	Debit	3294	3-15	
5759	Option B Refunds	Debit	3294	3-15	
5751	Pensions Paid	Debit	3296	3-15	
5755	3 (8)(c) Reimbursements To Other Systems	Debit	3296	3-17	
5752	COLA's Paid	Debit	3296	3-15	3-10
5753	Chapter 389 Beneficiary Increase Paid	Debit	3296	3-15	
5118	Board Member Stipend	Debit	3298	3-16	5-10
5119	Staff Salaries	Debit	3298	3-16	5-10
5308	Legal Expenses	Debit	3298	3-16	5-10
5309	Medical Expenses	Debit	3298	3-16	5-10
5719	Travel	Debit	3298	3-16	5-10
5589	Administrative Expenses	Debit	3298	3-16	5-10
5599	Furniture and Equipment	Debit	3298	3-16	5-10
5304	Management Fees (Expense Fund)	Debit	3298	3-16	5-10
5305	Custodial Fees (Expense Fund)	Debit	3298	3-16	5-10
5307	Consultant fees (Expense Fund)	Debit	3298	3-16	5-10

MEMORANDUM - Page Seven

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Calculation of Annuity Reserve Fund Interest

	(Debits)	Credits	Fund Balance	Interest (Balance X.0025)
January 1st	XXXXXXXXXX	XXXXXXXXXX	_____	_____
January 31st	_____	_____	_____	_____
February 28th	_____	_____	_____	_____
March 31st	_____	_____	_____	_____
April 30th	_____	_____	_____	_____
May 31st	_____	_____	_____	_____
June 30th	_____	_____	_____	_____
July 31st	_____	_____	_____	_____
August 31st	_____	_____	_____	_____
September 30th	_____	_____	_____	_____
October 31st	_____	_____	_____	_____
November 30th	_____	_____	_____	_____
December 31st	_____	_____	_____	XXXXXXXXXX
Adjusting entry to add interest	XXXXXXXXXX	_____	_____	_____

In order to calculate the interest required for the Annuity Reserve Fund you begin with the balance on January 1st. Next you subtract from the January 1st balance any debits such as annuities paid, option B refunds paid, as well as any transfer resulting from a surplus in the Annuity Reserve Fund. Next add any credits such as transfers from the Annuity Savings Fund and any transfer resulting from a deficit in the Annuity Reserve fund. You would then multiply each monthly balance by .0025. The total of the 12 months interest would then be entered as an adjusting entry and added to the balance of December 31st of the statement year.

MEMORANDUM - Page Eight

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Prior to closing, the following journal entry should be made to close out interest due and accrued as of the previous December 31st:

DEBIT Investment Income (Ledger #4820)
CREDIT Interest Due and Accrued on Fixed Income Securities (Ledger #1550)

The following journal entry should be made to enter Interest Due and Accrued as of December 31st of the current year:

DEBIT - Interest Due and Accrued on Fixed Income Securities (Ledger #1550)
CREDIT Investment Income (Ledger #4820)

An analysis must be made to determine if there are any accounts receivable or accounts payable. See Chapter 7 in the Accounting Manual All accounts receivable and accounts payable must be entered on Schedule A of the Annual Statement.

DEBIT Accounts Receivable (Ledger #1398)
CREDIT Appropriate accounts - see Chapter 7

DEBIT Appropriate accounts - see Chapter 7
CREDIT Accounts Payable (Ledger #2020)

Closing Entries

Prior to closing out the subsidiary accounts to their proper funds, the balances in these accounts can be used in compiling the Receipts and Disbursements pages of the Annual Statement. Once this has been completed, you may make the following closing entries:

1. DEBIT Members' Deductions (Ledger #4891)
DEBIT Transfers from Other Systems (Ledger #4892)
DEBIT Member Make Up Payments & Redeposits (Ledger #4893)
CREDIT Annuity Savings Fund (Ledger #3293)
2. DEBIT Annuity Savings Fund (Ledger #3293)
CREDIT Refunds to Members (Ledger #5757)
CREDIT Transfer to Other Systems (Ledger #5756)

MEMORANDUM - Page Nine

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Closing Entries - (Cont'd.)

3. DEBIT Annuity Reserve Fund (Ledger #3294)
CREDIT Annuities Paid (Ledger #5750)
CREDIT Option B Refunds (Ledger #5759)
4. DEBIT Pension Fund (Ledger #3296)
CREDIT Pensions Paid (Ledger #5751)
CREDIT 3 (8) (c) Reimbursement to other systems (Ledger #5755)
CREDIT COLAS Paid (Ledger #5752)
CREDIT Chapter 389 Benefits Paid (Ledger #5753)
5. DEBIT 3 (8) (c) Reimbursements from other systems (Ledger #4898)
DEBIT Received from Comm. for COLA's and Chapter 389 Paid (Ledger 4899)
DEBIT Pension Fund appropriation (Ledger #4894)
CREDIT Pension Fund (Ledger #3296)
6. DEBIT Federal Grant reimbursement (Ledger #4897)
DEBIT Pension Reserve Appropriation (Ledger #4895)
DEBIT Interest Not Refunded (Ledger #4822)
CREDIT Pension Reserve Fund (Ledger #3297)
7. DEBIT Expense Fund (Ledger #3298)
CREDIT Board Member Stipend (Ledger #5118)
CREDIT Salaries (Ledger #5119)
CREDIT Legal Expenses (Ledger #5308)
CREDIT Medical Expenses (Ledger #5309)
CREDIT Travel (Ledger #5719)
CREDIT Administrative Expenses (Ledger #5589)
CREDIT Furniture and Equipment (Ledger #5599)
CREDIT Management Fees (Ledger #5304)
CREDIT Custodial Fees (Ledger #5305)
CREDIT Consultant Fees (Ledger #5307)

MEMORANDUM - Page Ten

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Closing Entries - (Cont'd.)

8. THIS ENTRY IS ONLY FOR SYSTEMS THAT STILL HAVE AN EXPENSE
FUND APPROPRIATION
DEBIT Expense Fund Appropriation (Ledger #4896)
CREDIT Expense Fund (Ledger #3298)
9. DEBIT Special Fund for Military Service Credit (Ledger #4890)
CREDIT Special Fund for Military Service Credit (Ledger #3295)
10. DEBIT Investment Income (Ledger #4820)
CREDIT Paid Accrued Interest on Fixed Income Securities (Ledger #4823)
CREDIT Decrease in Amortization of Fixed Income Securities (Ledger #4829)
CREDIT Realized Loss/Loss on Sale of Investments (Ledger #4885)
CREDIT Unrealized Loss/ Decrease in Market Value of Equities (Ledger #4887)
11. DEBIT Investment Income Received (Ledger #4821)
DEBIT Increase in Amortization of Fixed Income Securities (Ledger #4828)
DEBIT Realized Gain/Profit on Sale of Investments (Ledger #4884)
DEBIT Unrealized Gain/Increase in Market Value of Equities (Ledger #4886)
CREDIT Investment Income (Ledger #4820)

To close the Investment Income Account to the Annuity Savings, Annuity Reserve, Expense, and Military Service Funds for the amount of interest required for these funds, with the balance going into the Pension Reserve Fund:

- DEBIT Investment Income (Ledger #4820)
CREDIT Annuity Savings Fund (Ledger #3293)
CREDIT Annuity Reserve Fund* (Ledger #3294)
CREDIT Special Fund For Military Service (Ledger #3295)
CREDIT Expense Fund** (Ledger #3298)
CREDIT Pension Reserve Fund (Ledger #3297)

***Use worksheet on page 8 for the calculation of interest for the Annuity Reserve Fund.**

****Transfer exact amount that will result in a zero balance in the Expense Fund**